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China, Peoples Republic of

Dried Fruit

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Report Highlights:

With production estimated at 125,000 tons, a 19-percent increase compared with 2006, the outlook for China's raisin production has witnessed continued growth due to strong consumer demand. Large domestic production is expected to slightly limit imports to 9,500 tons in MY06/07, compared to 10,391 tons in MY05/06. U.S. raisins dominate China's import market, however, consumption is still limited to high-end markets. U.S. raisins are imported in bulk, repackaged in duty free zones, and then transshipped to Japan to take advantage of China's low-cost labor and packing. Prospects to increase U.S. sales in China will depend on branding campaigns and targeted promotional activities.

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Production

Raisin production is projected to annually increase 10 to 20 percent in the next three years

Post estimates China's raisin production at 125,000 tons in MY06/07 (August to July), a 19-percent increase from the previous year, thanks to favorable weather conditions that resulted in higher than normal yields. About 80 percent of China's raisins are produced in Turpan, Xinjiang Autonomous Region. China's raisin production is forecast to increase 10 to 20 percent annually in the next three years driven by higher prices due to strong consumer demand. In the Turpan area, about 80 percent of fresh grape production is for raisin processing. Based on a recent visit to this region, post forecasts Turpan's fresh grape production will increase in the coming years due to increased inputs since 2001 that are now bearing fruit.

Currently, Turpan's grape acreage covers 33,300 hectares, about 70 percent of the crop is mature to its peak yielding period. According to local officials, Turpan plans to expand its grape acreage to 36,700 hectares by 2010. Acreage expansion will be moderate, however, the real increase in production can be attributed to higher yielding acreage that will mature in the next three to five years, due to the aforementioned increases in input that took place from 2001 to 2004.

Xinjiang is the largest green raisin producer in the world



Unlike California raisins, about 80 percent of Xinjiang raisins are green because they are air-dried in special drying houses, not sun-dried. Xinjiang's Turpan and Hetian districts have the appropriate hot and dry climate to produce this type of raisin. Turpan is the hottest area in China with average summer temperatures (June to August) as high as 38°C. The drying houses utilized for raisin production are made of claw bricks measuring at about three by four by six to eight meters, with many brick-sized openings on all four walls of the edifice. (Source: www.jschina.com.cn)

The dryers are located in open space areas in order to take advantage of the hot desert winds that blow through them. The drying process is fairly simple. First, the grapes, still in vine, are hung side by side on small hooks wired to wooden panels. Then, the hot and dry desert winds dry the fruit. The fruit that falls from the vine early is sun-dried and will blacken. Fresh grapes take about 40 days to become raisins. Raisin producers input seven to eight tons of fresh grapes to reach a one to two ton raisin yield. Thompson Seedless is the major raisin variety in Xinjiang.



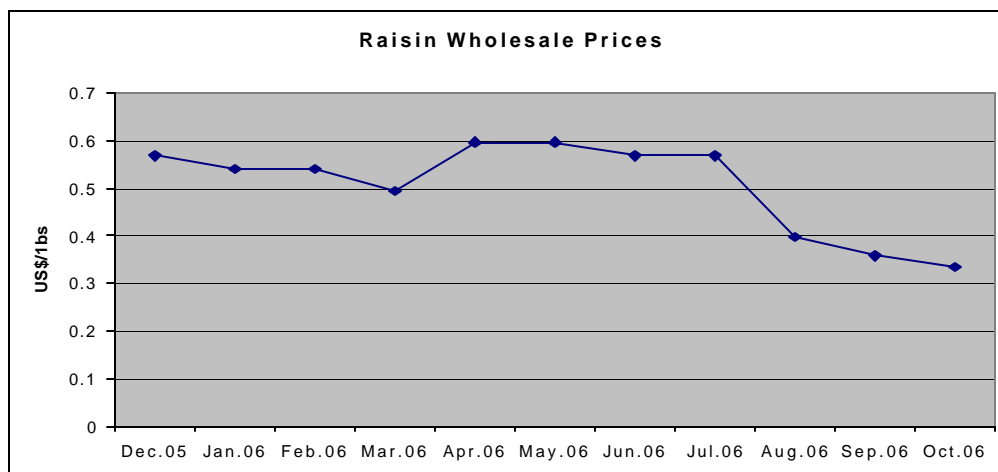
Turpan raisin production is vertically integrated with all of the drying houses built and owned by individual farmers.

Farmers sell raisins to either local processors or wholesale markets. Processors or wholesale market managers grade raisins (usually by hand), and then deliver to their buyers all over China. Based on the information collected from Post's visits in Turpan, transportation is typically provided by local raisin sellers. There are two options for Turpan's raisin delivery: railway and truck. Although transportation by truck is lower costing, it is also longer in delivery time; conversely, railway delivery is the exact opposite. For example, it takes about three to five days at ? 350/ton (US\$45/ton) to get to Guangzhou (Guangdong Province) by truck; while eight to ten days at ? 200/ton (US\$25/ton) to arrive by train. Transportation is a decision that is determined by buyers, however, raisin prices will strongly influence this decision. Generally speaking, about 50 percent of raisins were evenly split between railway and truck.

(Source: www.jschina.com.cn)

Raisin Prices

Raisins are available year-round in the Chinese market at varying prices. The table below shows raisin wholesale prices in the Chinese market from the November 2005 to October 2006 period. Raisin prices will normally appreciate in the spring months due to market shortages after the Mid-Autumn Festival (Chinese Lunar New Year) and in anticipation of the August grape harvest.



(Source: Ministry of Agriculture, P.R. China)

Trade

U.S. dominates China's imported raisin market

Post forecasts a slight decline in China's raisin imports to 9,500 metric tons in MY2006/07, due to the large increase in domestic production. China imported 10,647 tons of raisins from the United States in 2005, accounting for about 95 percent of China's total raisin imports, thus, making China the forth-largest market for U.S. raisins.

Japan is the largest market for China's exported raisins; about 78 percent (10,254 tons) of China's exported raisins were shipped to Japan in 2005. However, most of China's raisin exports are not domestically produced. Post's market intelligence indicates that a large number of U.S. raisins are imported into China and are later transshipped to Japan. Taking advantage of China's low-cost labor and packaging, Chinese traders import U.S. raisins in bulk, reprocess and repack into smaller packages in duty free zones mainly located in Qingdao and Tianjin ports, and then re-export to Japan. In 2005, 68 percent of raisin imports arrived through the Qingdao Port (Shandong Province), while 63 percent of raisin exports were also shipped through the same port.

In addition to Japan, China's raisin exports to Europe (mainly United Kingdom and Germany) and Canada increased rapidly in recent years thanks to competitive pricing. Chinese also export domestically produced raisins to Korea. Korean buyers prefer dark lower-quality sun dried raisins for their confectionary industry.

	H.S. Code	Imp. Duty (%)		VAT (%)		Rebate (%)	
		2005	2006	2005	2006	2005	2006
Raisin	08062000	10	10	13	13	5	5

Consumption

Per capita raisin consumption in China is low, 80g/year, about 1/10 of U.S. per capita consumption. Like most snack food consumption trends, raisins in China are expected to increase in tandem with rising incomes. Although they are more expensive than locally produced ones – about two times higher, U.S. raisins have an excellent reputation among higher income consumers and institutional users because of their consistent high quality with regards to taste, appearance, and supply reliability. At the same time, U.S. raisin producers face great competition in the Chinese market, not only from Xinjiang raisins and raisins from other countries, but from other types of snack food and bakery ingredients that Chinese consumers frequently substitute with raisins.

China has a long history of raisin consumption and processing. Though it is hard to obtain official statistics on raisin consumption in China, robust growth of raisin sales in the retail sector has been recorded (See Table 1) which represents a significant portion of dried fruit consumption. More and more varieties of dried or preserved fruits are available in the retail market as snack food.

Table 1. Retail Sales of Fruit Snacks: Value 1999-2005

Year	1999	2000	2001	2002	2003	2004	2005
Value (RMB million)	1450.96	1,684.53	1899.89	2079.16	2,261.56	2453.61	2654.04
Approx Value in US\$ (million)	181.37	210.57	237.49	259.90	282.70	306.70	331.76
Change (Year on Year)	-	16.1%	12.8%	9.4%	8.8%	8.5%	8.2%

Distribution Channels

There are many small and medium food traders in the Qingdao area, including many Japanese joint ventures. The Chinese market has few traders that specifically deal with raisins. Most raisins traders mainly import U.S. dried fruit and nuts to source the local food processing industry (free of value-added tax or duty), they then process and repack and re-export generally to Japan, and occasionally to Korea and the European Union in a limited volume. In 2006, a significant number of imported U.S. raisins were transshipped to Japan this way.

Major domestic consumption drivers

Post estimates that more than 90 percent of imported raisins for domestic consumption are through traders who source end-users. One reason why retailers and the confectionary and baking industry do not import directly is because volumes per sale tend to be small and consequently not cost-effective. China has three major raisin markets:

- 1) **Supermarket/Retail:** Mostly import green and golden raisins. Packaging and marketing hold a prominent role in this sector as raisins are sold to consumers as a snack food that is in direct competition with a wide selection of other products. High-end supermarkets that cater to the ex-pat community recognize California raisins' reputable name, this is especially true in larger cities.
- 2) **Bakery and confectionary industry:** The major user of imported black raisins. This industry is expanding and presents the greatest opportunity in the short term for U.S. raisins. China's bakery sector is expected to take a lead role in the rapidly growing economy of fast-paced lives and dual household incomes of most mid-sized and large cities.

The bakery industry is more developed in the South due to consumer preference for sweet snacks. However in recent years, Beijing's bakery industry has witnessed impressive growth and is considered one of the largest potential bakery markets in China. There are more than 6,000 bakery-related organizations in the Beijing urban district including confectionary stores, 5-star hotels and materials suppliers. As a product differentiation strategy, some competitors will turn to U.S. raisins as a high-quality ingredient to enhance sales for their products. For this reason, long-term branding campaigns are essential to developing a demand for U.S. raisins in this market.

- 3) **Hotel industry:** Complimented by the bakery and confectionary industry, this sector presents a growing demand for U.S. raisins. Raisins are having a greater presence in 5-star hotels menus. Input in menu innovation and chef training can indirectly help familiarize Chinese consumers with U.S. raisins thus increasing the demand for this commodity.

U.S. exporters are encouraged to contact the Agricultural Trade Offices (ATO) for detailed marketing information:

- ATO Beijing office at (011-86-10) 8529-6418; email: atobeijing@usda.gov
- ATO Shanghai office at (011-86-21) 6279-8622; email: atoshanghai@usda.gov
- ATO Guangzhou office at (011-8620) 8667-7553; email: atoguangzhou@usda.gov

The Chinese Raisin Consumer

Raisin consumption is mainly driven by the emerging educated middle-class, from youth to middle-age who prefer to snack on healthy food. These consumers most likely live in big cities or affluent industrialized regions, e.g., Pearl River Delta or Yangzi River Delta. Living in fast-paced metropolitan areas, they are highly concerned with health and quality of life. Given a higher disposable income, they are willing to pay a premium for products having nutritive, anti-aging, or slimming and beauty enhancing properties. These consumers are also willing to pay this premium for their children and parents, who they may also be responsible for financially supporting.

SWOT Analysis and Recommendations for U.S. Raisin Marketing in China

A SWOT analysis is useful in evaluating the China market for U.S. raisins. Main strengths of U.S. raisins derive from high product quality and safety, advanced processing know-how, strong support from U.S. government agencies and depreciating U.S. currency against the Chinese Renminbi. Constraints are general lack of awareness of U.S. raisins and specific health benefits associated with U.S. raisin consumption, consumers' price sensitivity versus comparably high prices of U.S. products, as well as fierce competition from domestic products or those imported from other countries. Nonetheless, there are still ample opportunities for U.S. products in China, given consumers' recognition of food function for health and medication, emergence of middle-class, their strong demand for healthy and snack foods, as well as the fast-growth pace of retail and baking sectors in the country. In this market, U.S. products are also threatened by domestic and international competitors, severe counterfeit production in-country, and consumers' high-price sensitivity. Table 2 details the SWOT analysis.

Based on the SWOT analysis, listed below are recommended approaches for marketing raisins in China:

1. Invest in a long-term branding strategy that adds value to the product;
2. Provide education to consumers and traders on U.S. raisin health benefits;
3. Promote U.S. raisins in fast growing sectors, e. g. retail, bakery, snack food, etc.;
4. Make U.S. products more price competitive, e.g., move the labor intensive processing part to China where labor and operating costs are much lower;
5. Match promotional activities directly with major consumption trends.

Table 2. SWOT Analysis of U.S. raisins in China

Strength	Weakness
<ul style="list-style-type: none"> • U. S. products in general are regarded as having good quality, safe to eat and promoting health benefits; • Depreciating exchange rate of U. S. dollar versus Chinese Renminbi reduces the price of U.S. products; • U. S. manufacturers and exporters have more expertise, compared with competitors; • Strong support from U.S. government agencies in overseas marketing and anti-counterfeit. 	<ul style="list-style-type: none"> • Chinese consumers lack of knowledge of particular health benefits obtained from consuming U. S. raisins; • Prices of U. S. products are generally higher than counterparts produced in competitor countries; • Price-sensitive Chinese consumers are reluctant to pay a premium for U.S. products without knowing the specific benefits associated with consuming such products; • U. S. products present vague differentiation from competitors' products;
Opportunities	Threats
<ul style="list-style-type: none"> • Chinese consumers perceive raisins as health-enhancing food; • Strong demand for healthy snack food in urban areas; • Emerging middle class in cities, these consumers are well-educated, pursue a healthy lifestyle, and willing to pay high prices for quality goods; • Fast development of retail and bakery sectors that are good channels for raisin promotion and sales. 	<ul style="list-style-type: none"> • Competition from products grown domestically or from other countries; • Severe counterfeit problem in China • Price-sensitive consumers reluctant to pay premium prices without knowing the benefits derived from consuming U.S. products.

Statistics Table

Table 1. Production, Supply and Demand (PS&D) Table

PSD Table									
Country	China, Peoples Republic of								
Commodity	Raisins						(HA) (MT)		
	2004	Revised		2005	Estimate		2006	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		08/2004	08/2004		08/2005	08/2005		08/2006	08/2006
Area Planted	0	0	20,360	0	0	23,680	0	0	26,780
Area Harvested	0	0	14,250	0	0	16,580	0	0	18,750
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	0	0	95,000	0	0	105,000	0	0	125,000
Imports	0	0	12,188	0	0	10,391	0	0	9,500
Total Supply	0	0	107188	0	0	115391	0	0	134500
Exports	0	0	14,818	0	0	18,063	0	0	22,500
Domestic Consumption	0	0	92370	0	0	97,328	0	0	112,000
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	0	0	107188	0	0	115391	0	0	134500

Table 2. China Raisin Imports by Country

(Metric Tons)				
H.S. Code: 08062000				
Country	3rd Qtr 2005	4th Qtr 2005	1st Qtr 2006	2nd Qtr 2006
United States	2,343	2,822	2,066	1,747
Turkey	80	41	240	200
Japan	170	56	54	15
Greece	0	0	0	10
Others	23.931	69.58	0	0
Total	2,616	2,989	2,360	1,972

Table 3. China Raisin Exports by Country

(Metric Tons)				
H.S. Code: 08062000				
Country	3rd Qtr 2005	4th Qtr 2005	1st Qtr 2006	2nd Qtr 2006
Japan	2,574	2,308	1,922	2,557
Canada	0	73	174	809
Germany	16	230	609	779
Belgium	0	0	100	704
Austria	0	0	175	420
Lithuania	0	12	9	396
United Kingdom	15	118	309	226
Poland	0	0	0	100
Latvia	0	0	0	94
Others	387	624	740	677
Total	2,993	3,364	4,038	6,761